

Idaho Economic Forecast

The following tables and text are taken from the
January 2004 *Idaho Economic Forecast*,
a publication produced by the
Division of Financial Management.

(This page left blank intentionally.)

EXECUTIVE SUMMARY

Idaho's economy began moving again in 2003 and is expected to gradually accelerate through 2007. This is a welcome change from 2002, when Idaho nonfarm employment declined for the first time in 15 years. The Idaho quarterly job data show employment declined during the last two quarters of 2001 and the first quarter of 2002. Idaho employment expanded slowly during the remainder of 2002, but was not strong enough to reverse the previously lost ground. Hence, the employment decline in 2002. It should be pointed out that while Idaho nonfarm employment was flat in 2002, it was stronger than its national counterpart that fell 1.1%. Idaho nonfarm employment growth is anticipated to gradually accelerate as the U.S. economy heats up. Specifically, nonfarm employment expands 1.0% in 2003, 1.5% in 2004, 1.7% in both 2005 and 2006, and 1.9% in 2007. While this growth is lower than during Idaho's long expansion, it is a welcome change from the absence of growth in 2002. Part of the reason for this subdued growth is the expected declines in the goods producing-sector over the next few years. This leaves the nongoods-producing sector responsible for all of the job growth. The largest growth engine will be the services sector followed by trade. Idaho personal income growth is also expected to improve over the forecast period. Nominal personal income should rise 4.7% in 2003, 5.7% in 2004, 4.9% in 2005, 5.6% in 2006, and 5.9% in 2007. Idaho real personal income is projected to increase 2.7% in 2003, 4.2% in 2004, 2.9% in 2005, 3.5% in 2006, and 3.7% in 2007. After stalling, Idaho's economy is making the turn toward prosperity. While this turn may seem slow to some, it is a change toward the right direction.

It appears the U.S. economy completed its protracted turn away from the doldrums into more prosperous waters during the second half of 2003. Technically, the U.S. economic recovery began about two years ago. Indeed, real GDP has grown since the last quarter of 2001. More specifically, the National Bureau of Economic Research pinpoints the recession's end as November 2001. Although the economy has been moving forward since then, up until recently, it has not felt like much of a recovery. The reason for this is the absence of two important parts of a typical recovery: the lack of business investment and the lack of jobs. The good news is conditions are finally ripe for continued growth over the forecast period. First, previous high-tech investments are becoming obsolete. Second, any equipment purchases will be helped by low interest rates. Third, improving corporate profits will make it easier to pay for equipment. Fourth, generous tax treatment for newly acquired equipment will also tilt the scales in favor of additional investment. Fifth, the improving stock market will give companies another option for financing their equipment needs. The declining U.S. civilian unemployment rate is evidence the long-suffering labor market is improving. This is important because the positive impact of stronger employment is assumed to kick in as the impacts fiscal and monetary policies wind down. Two missing pieces of the economic recovery, investment and jobs, have finally fallen into place. By doing so they complete a picture that suggests the U.S. economy will enjoy stronger growth over the forecast period than it did in the first three years of this decade.

IDAHO ECONOMIC FORECAST

EXECUTIVE SUMMARY

JANUARY 2004

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP (BILLIONS)											
Current \$	8,318	8,782	9,274	9,825	10,082	10,446	10,925	11,580	12,211	12,883	13,610
% Ch	6.5%	5.6%	5.6%	5.9%	2.6%	3.6%	4.6%	6.0%	5.4%	5.5%	5.6%
1996 Chain-Weighted	8,159	8,509	8,859	9,191	9,215	9,440	9,716	10,138	10,498	10,871	11,259
% Ch	4.4%	4.3%	4.1%	3.8%	0.3%	2.4%	2.9%	4.3%	3.6%	3.6%	3.6%
PERSONAL INCOME - CURR \$											
Idaho (Millions)	25,227	27,066	28,902	31,177	32,363	33,585	35,160	37,167	38,981	41,165	43,602
% Ch	4.4%	7.3%	6.8%	7.9%	3.8%	3.8%	4.7%	5.7%	4.9%	5.6%	5.9%
Idaho Nonfarm (Millions)	24,557	26,149	27,872	30,382	31,400	32,572	34,008	35,855	37,734	39,885	42,331
% Ch	5.4%	6.5%	6.6%	9.0%	3.3%	3.7%	4.4%	5.4%	5.2%	5.7%	6.1%
U.S. (Billions)	6,937	7,426	7,786	8,407	8,685	8,922	9,210	9,685	10,223	10,817	11,471
% Ch	6.0%	7.0%	4.9%	8.0%	3.3%	2.7%	3.2%	5.2%	5.6%	5.8%	6.0%
PERSONAL INCOME - 1996 \$											
Idaho (Millions)	24,745	26,268	27,594	29,030	29,538	30,239	31,055	32,367	33,314	34,476	35,739
% Ch	2.4%	6.2%	5.0%	5.2%	1.7%	2.4%	2.7%	4.2%	2.9%	3.5%	3.7%
Idaho Nonfarm (Millions)	24,088	25,379	26,611	28,291	28,659	29,326	30,037	31,224	32,248	33,403	34,697
% Ch	3.4%	5.4%	4.9%	6.3%	1.3%	2.3%	2.4%	4.0%	3.3%	3.6%	3.9%
U.S. (Billions)	6,804	7,207	7,435	7,828	7,927	8,033	8,134	8,434	8,737	9,060	9,402
% Ch	3.9%	5.9%	3.2%	5.3%	1.3%	1.3%	1.3%	3.7%	3.6%	3.7%	3.8%
HOUSING STARTS											
Idaho	8,864	10,113	10,343	11,528	12,240	13,196	15,247	12,892	12,229	11,627	11,065
% Ch	-3.9%	14.1%	2.3%	11.5%	6.2%	7.8%	15.5%	-15.4%	-5.1%	-4.9%	-4.8%
U.S. (Millions)	1.475	1.621	1.647	1.573	1.601	1.711	1.792	1.722	1.612	1.603	1.623
% Ch	0.4%	9.9%	1.6%	-4.5%	1.8%	6.9%	4.7%	-3.9%	-6.4%	-0.6%	1.2%
TOTAL NONFARM EMPLOYMENT											
Idaho	507,422	520,473	538,096	558,571	568,017	568,015	573,581	581,925	591,734	602,052	613,550
% Ch	3.4%	2.6%	3.4%	3.8%	1.7%	0.0%	1.0%	1.5%	1.7%	1.7%	1.9%
U.S. (Thousands)	122,767	125,924	128,994	131,790	131,830	130,376	130,009	131,491	134,395	136,853	139,293
% Ch	2.6%	2.6%	2.4%	2.2%	0.0%	-1.1%	-0.3%	1.1%	2.2%	1.8%	1.8%
SELECTED INTEREST RATES											
Federal Funds	5.5%	5.4%	5.0%	6.2%	3.9%	1.7%	1.1%	1.1%	1.9%	2.4%	3.1%
Bank Prime	8.4%	8.4%	8.0%	9.2%	6.9%	4.7%	4.1%	4.1%	4.9%	5.4%	6.1%
Existing Home Mortgage	7.7%	7.1%	7.3%	8.0%	7.0%	6.5%	5.8%	6.7%	7.1%	7.1%	7.2%
INFLATION											
GDP Price Deflator	1.9%	1.2%	1.4%	2.1%	2.4%	1.1%	1.6%	1.6%	1.8%	1.9%	2.0%
Personal Cons Deflator	1.9%	1.1%	1.6%	2.5%	2.0%	1.4%	1.9%	1.4%	1.9%	2.0%	2.2%
Consumer Price Index	2.3%	1.5%	2.2%	3.4%	2.8%	1.6%	2.3%	1.4%	1.9%	2.0%	2.2%

IDAHO ECONOMIC FORECAST

EXECUTIVE SUMMARY

JANUARY 2004

	2003				2004				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP (BILLIONS)												
Current \$	10,688	10,803	11,038	11,169	11,335	11,484	11,670	11,831	11,988	12,138	12,283	12,433
% Ch	3.8%	4.3%	9.0%	4.8%	6.1%	5.4%	6.6%	5.7%	5.4%	5.1%	4.9%	5.0%
1996 Chain-Weighted	9,552	9,629	9,797	9,885	9,985	10,076	10,197	10,294	10,378	10,459	10,536	10,620
% Ch	1.4%	3.3%	7.2%	3.6%	4.1%	3.7%	4.9%	3.9%	3.3%	3.2%	3.0%	3.2%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	34,545	34,922	35,354	35,820	36,431	36,900	37,462	37,876	38,292	38,788	39,276	39,569
% Ch	5.0%	4.4%	5.0%	5.4%	7.0%	5.3%	6.2%	4.5%	4.5%	5.3%	5.1%	3.0%
Idaho Nonfarm (Millions)	33,379	33,727	34,250	34,677	35,173	35,596	36,080	36,570	37,028	37,497	37,980	38,431
% Ch	3.6%	4.2%	6.3%	5.1%	5.9%	4.9%	5.5%	5.5%	5.1%	5.2%	5.2%	4.8%
U.S. (Billions)	9,080	9,156	9,247	9,355	9,491	9,612	9,751	9,888	10,024	10,157	10,291	10,419
% Ch	3.0%	3.4%	4.0%	4.8%	5.9%	5.2%	5.9%	5.8%	5.6%	5.4%	5.4%	5.0%
PERSONAL INCOME - 1996 \$												
Idaho (Millions)	30,675	30,947	31,146	31,453	31,917	32,229	32,562	32,760	32,967	33,233	33,485	33,574
% Ch	2.2%	3.6%	2.6%	4.0%	6.0%	4.0%	4.2%	2.5%	2.5%	3.3%	3.1%	1.1%
Idaho Nonfarm (Millions)	29,639	29,888	30,173	30,449	30,815	31,090	31,360	31,630	31,878	32,127	32,379	32,608
% Ch	0.8%	3.4%	3.9%	3.7%	4.9%	3.6%	3.5%	3.5%	3.2%	3.2%	3.2%	2.9%
U.S. (Billions)	8,063	8,114	8,146	8,215	8,315	8,395	8,475	8,552	8,630	8,703	8,774	8,840
% Ch	0.3%	2.6%	1.6%	3.4%	4.9%	3.9%	3.9%	3.7%	3.7%	3.4%	3.3%	3.1%
HOUSING STARTS												
Idaho	15,633	14,710	16,398	14,247	13,301	12,890	12,724	12,654	12,497	12,313	12,138	11,969
% Ch	-13.6%	-21.6%	54.4%	-43.0%	-24.0%	-11.8%	-5.0%	-2.2%	-4.9%	-5.8%	-5.6%	-5.4%
U.S. (Millions)	1,737	1,739	1,868	1,825	1,776	1,752	1,698	1,662	1,629	1,609	1,605	1,606
% Ch	-1.4%	0.5%	33.2%	-9.0%	-10.2%	-5.5%	-11.7%	-8.1%	-7.8%	-4.7%	-1.0%	0.2%
TOTAL NONFARM EMPLOYMENT												
Idaho	572,805	570,754	574,468	576,297	578,572	580,635	583,077	585,418	587,948	590,643	593,172	595,173
% Ch	0.3%	-1.4%	2.6%	1.3%	1.6%	1.4%	1.7%	1.6%	1.7%	1.8%	1.7%	1.4%
U.S. (Thousands)	130,225	129,984	129,838	129,989	130,420	130,986	131,867	132,689	133,393	134,142	134,739	135,304
% Ch	-0.3%	-0.7%	-0.4%	0.5%	1.3%	1.7%	2.7%	2.5%	2.1%	2.3%	1.8%	1.7%
SELECTED INTEREST RATES												
Federal Funds	1.3%	1.2%	1.0%	1.0%	1.0%	1.0%	1.0%	1.3%	1.4%	1.8%	2.0%	2.3%
Bank Prime	4.3%	4.2%	4.0%	4.0%	4.0%	4.0%	4.0%	4.2%	4.4%	4.8%	5.0%	5.3%
Existing Home Mortgage	5.9%	5.6%	5.7%	6.1%	6.4%	6.6%	6.8%	6.8%	6.9%	7.1%	7.2%	7.2%
INFLATION												
GDP Price Deflator	2.4%	1.0%	1.7%	1.2%	1.9%	1.6%	1.7%	1.7%	2.0%	1.9%	1.8%	1.7%
Personal Cons Deflator	2.7%	0.8%	2.4%	1.3%	0.9%	1.2%	2.0%	2.0%	1.9%	1.9%	2.0%	1.9%
Consumer Price Index	3.9%	0.6%	2.3%	1.1%	0.9%	1.2%	2.0%	2.0%	1.8%	1.9%	1.9%	1.9%

NATIONAL FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2003 through the Fourth Quarter of 2007

The long, frustrating wait for better times may be over. It appears the U.S. economy completed its protracted turn away from the doldrums into more prosperous waters during the second half of 2003. Technically, the U.S. economic recovery began about two years ago. Indeed, real GDP has grown since the last quarter of 2001. More specifically, the National Bureau of Economic Research pinpoints the recession's end as November 2001. Although the economy has been moving forward since then, up until recently, it has not felt like much of a recovery. The reason for this is the absence of two important parts of a typical recovery: the lack of business investment and the lack of jobs.

Most recessions are caused by the decline in its largest segment, consumer spending. For example, during the 1990-91 recession real consumer spending retreated 1.3% over three quarters. In contrast, real consumer spending expanded during the 2001 recession, and has continued growing since it ended. So, unlike in most recessions, real consumer spending was not an issue in the 2001 recession.

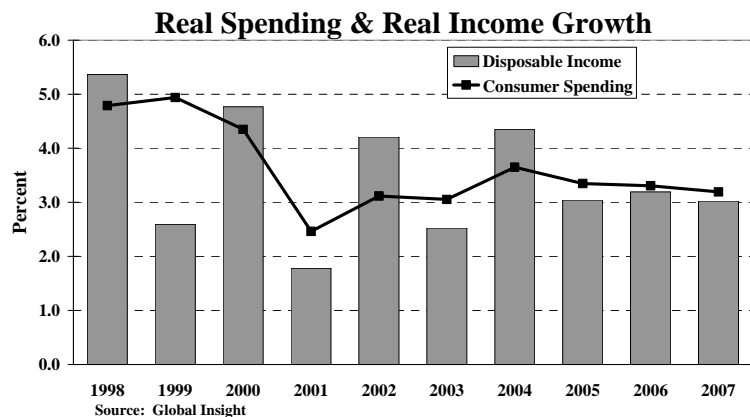
The real culprit in the 2001 recession was the collapse in real business investment. This sector's quick and severe reversal translated into havoc in the overall economy. Real business investment increased an average of 9.9% annually from 1992 to 2000. Much of this growth reflected the strong showing of the equipment and software component. This being the case, it is no surprise business investment collapsed when spending on equipment and software retreated. However, this situation improved last year, as investment began to expand once again. The good news is conditions are ripe for continued growth over the forecast period. First, previous high-tech investments are becoming obsolete. Second, any equipment purchases will be helped by low interest rates. Third, improving corporate profits will make it easier to pay for equipment. Fourth, generous tax treatment for newly acquired equipment will also tilt the scales in favor of additional investment. Fifth, the improving stock market will give companies another option for financing their equipment needs. It should be noted, however, that even with all these factors in its favor, real business investment is not likely to expand as it did in the 1990s. There is a global excess of manufacturing capacity, and this will limit future investments.

The most painful legacy of the recovery has been the lack of jobs. As recently as the summer of 2003, the nation's unemployment rate was climbing. Since then, it has been declining gradually. The improving job situation will help consumer confidence, and will play a big role in the economy's future. Part of the reason consumer spending did not decline during the recession was well-timed fiscal and monetary policies. Two rounds of federal income tax rebate checks helped keep Americans spending, as did low interest rates. The impacts of these policies will decrease over time, but stronger investment and job growth should keep the economy moving forward. One sign the labor market is ripe for a recovery is soaring productivity. Productivity rose a remarkable 7.0% in 2003's second quarter and an astounding 8.1% in its third quarter. Productivity typically surges during a recovery before employment restarts. This is because businesses use resources other than labor to meet growing demand. At some point, however, employers exhaust other alternatives and must add employees.

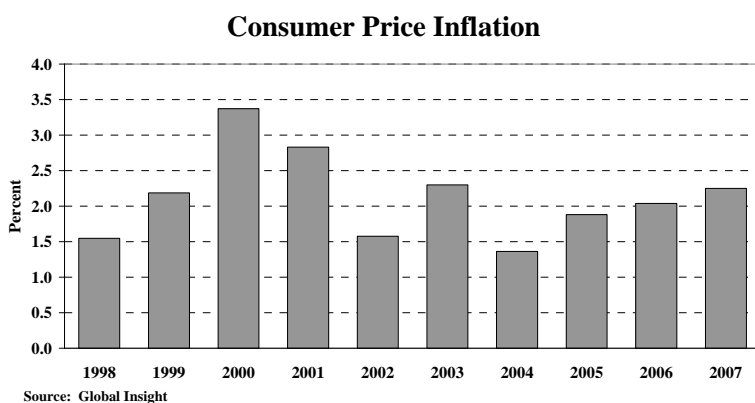
The two missing pieces of the economic recovery, investment and jobs, have finally fallen into place. By doing so they complete a picture that suggests the U.S. economy will enjoy stronger growth over the forecast period than it did in the first three years of this decade.

SELECTED NATIONAL ECONOMIC INDICATORS

Consumer Spending: True to form, American consumers have continued to spend despite the soft job picture. This has been a trademark of the current recovery. A quick look back shows real consumer spending has, in fact, expanded in every quarter since the second quarter of 1991. This is unusual because most recessions are the result of consumers curbing their spending. For example, real consumer spending shrank in both the last quarter of 1990 and the first quarter of 1991, which



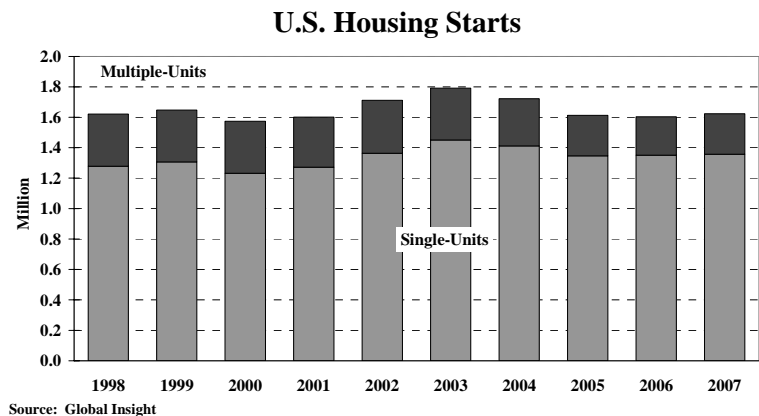
were also the two weakest quarters for real GDP during the 1990-91 recession. This was no coincidence. However, more recently, consumers with means have showed they will not pass up a bargain. Durable goods accounted for a huge part of spending by growing faster than overall consumer spending recently. Lured into showrooms by generous financial incentives, many Americans left with new vehicles, causing sales to average about 17 million units annually for the three-year period from 2000 to 2002. New vehicle sales are expected to drop slightly to 16.6 million units this year. The strong housing market bolstered sales of other durable goods, such as major appliances. The combination of housing price appreciation and low interest rates has provided the means for consumers to indulge themselves despite the anemic job picture. This occurred in several ways. Low interest rates lead to a rash of refinancing. Some homeowners cashed out and spent some of their equity. The lower interest rates also dropped monthly mortgage payments, freeing up additional cash. Others took out home equity loans, which provided an easily drawn on cash reservoir. Last summer consumers received a windfall to propel further spending. Provisions of the Jobs and Growth Tax Reconciliation Act of 2003 cut income tax withholdings by a \$45.8 billion annual rate during the third quarter of 2003. Additionally, advance payments of the child tax credit boosted disposable income by \$55.4 billion, bringing the total tax cut to a \$101.2 billion annual rate during the 2003 summer quarter. The goal of these cuts was to get money into the hands of consumers to spend, and consumers obliged. Real consumer spending surged at a 6.6% annual rate in the third quarter of 2003—its strongest showing in six years. Of course, this was a one-time impact, so spending growth is not expected to remain that high. However, it is not expected to collapse either. For the first time in several years merchants have high expectations for Christmas. It has been estimated that nominal retail sales excluding autos will improve 6% compared to last year. On an annual basis, real spending less autos should grow 3.4% during the last quarter of 2003. Real spending growth is expected to continue after 2003 thanks to stronger job growth. Specifically, real spending is predicted to advance 3.7% in 2004, 3.3% in 2005, 3.3% in 2006, and 3.2% in 2007.



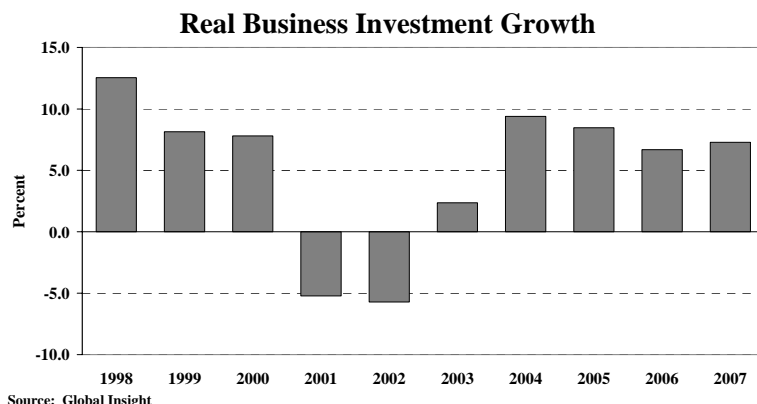
Inflation: The U.S. economy is expected go from relative price stability to modest inflation over the forecast period. Inflation has been scarce although the economy is expanding. Top-line inflation measures such as the core consumer price index and core chained personal consumption deflator showed year-over-year inflation was running about 1.0% last September. Assuming measurement bias is about 1.0%, actual inflation is virtually

nonexistent. There are a couple of reasons inflation has been so tame. First, commodity prices have grown just fractionally over the past year. Second, labor costs have been contained thanks to the phenomenal productivity growth. Eventually, productivity should slow, and this will put pressure on compensation, which in turn will fuel inflation. However, this will come down the road. In 2004, the consumer price index is expected to drop below 2.0% growth thanks to falling energy prices. Inflation will accelerate slightly thereafter, but should remain modest by historical standards. The slow rise in core inflation is caused by a number of factors, the most important being a stronger economy. The latter, in particular, will provide a better balance in markets and allow companies greater pricing leverage, although this will take time to develop due to the large amount of unused capacity available. The projected productivity growth will help keep unit labor cost increases just under 2.0% per year. The consumer price index is forecast to increase 2.3% in 2003, 1.4% in 2004, 1.9% in 2005, 2.0% in 2006, and 2.2% in 2007.

Housing: The housing sector has been an unusual bright spot during the recession. More than once, this sector's strength has caught analysts by surprise. The housing is usually soft during recessions because consumers resist making such an important financial commitment during periods of economic uncertainty. This was indeed the case in the 1990-91 recession. During that slowdown U.S. housing starts plunged nearly 40% to 1,000,000 units. However, the housing industry broke with this tradition in recent years. While housing starts did decline in 2000, the 4.8% drop was much smaller than the nearly 40% plunge in 1990-91. Part of the reason for the smaller drop was the impact of the softer economy was dampened by low interest rates. These low interest rates also help explain why housing recovered so quickly despite the soft job market. For example, there were 1.6 million housing starts in 2001, 1.7 million units in 2002, and an estimated 1.8 million in 2003. The expected rise in mortgage interest rates will take its toll, but the impact will be relatively minor. This is because the declines are from such high levels. Specifically, housing starts are expected to decline in each year through 2006 then increase in 2007. Of course, the housing sector could continue to defy traditional expectations. Global Insight recently reported in the fall that there were no signs of downward pressure on the housing market due to a backlog of completed houses waiting for owners. In fact, there was only a 3.7-month supply of single-family homes, which is near the record low of a 3.5 months supply. It is interesting to point out that the U.S. homeownership rate has improved markedly over the last few years. The Census Bureau reported the homeownership rate reached a record high of 68.4% in the third quarter of 2003. This was up 1.4 percentage points from the previous five years and 3.7 percentage points over the previous decade. In the previous ten years, homeownership rates had been flat.



While housing starts did decline in 2000, the 4.8% drop was much smaller than the nearly 40% plunge in 1990-91. Part of the reason for the smaller drop was the impact of the softer economy was dampened by low interest rates. These low interest rates also help explain why housing recovered so quickly despite the soft job market. For example, there were 1.6 million housing starts in 2001, 1.7 million units in 2002, and an estimated 1.8 million in 2003. The expected rise in mortgage interest rates will take its toll, but the impact will be relatively minor. This is because the declines are from such high levels. Specifically, housing starts are expected to decline in each year through 2006 then increase in 2007. Of course, the housing sector could continue to defy traditional expectations. Global Insight recently reported in the fall that there were no signs of downward pressure on the housing market due to a backlog of completed houses waiting for owners. In fact, there was only a 3.7-month supply of single-family homes, which is near the record low of a 3.5 months supply. It is interesting to point out that the U.S. homeownership rate has improved markedly over the last few years. The Census Bureau reported the homeownership rate reached a record high of 68.4% in the third quarter of 2003. This was up 1.4 percentage points from the previous five years and 3.7 percentage points over the previous decade. In the previous ten years, homeownership rates had been flat.

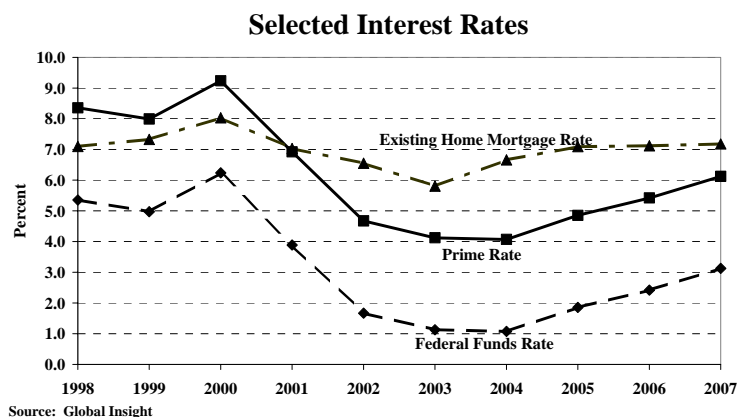


Business Investment: An important missing piece to the recovery was found when business fixed investment began expanding last summer. The importance of the investment turnaround cannot be overstated because the collapse of business investment contributed heavily to the 2000 recession. This drop was especially painful because through most of the 1990s business investment was an

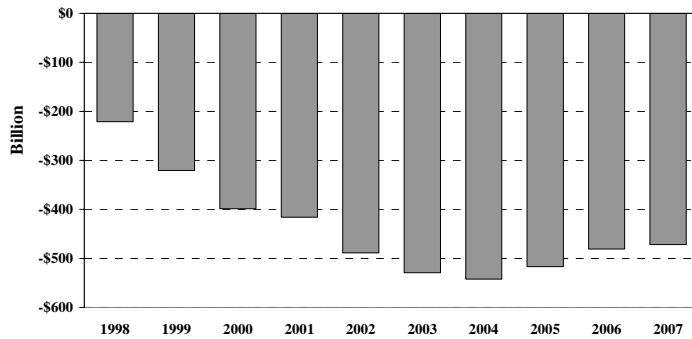
important growth engine that out performed the overall economy. A brief review puts this in perspective. Real business investment increased in every year from 1992 to 2000. An amazing 9.9% annual growth rate caused the level of real business investment to more than double over this nine-year period. Business investment expanded by nearly 13% in 1998 alone. Much of this growth reflected the strong showing of its equipment and software component. Fueled by Y2K concerns, the Internet, and the Telecommunications Act of 1996, real equipment and software investment eclipsed overall business investments' torrid pace. This being the case, it is no surprise business investment collapsed when spending on equipment and software retreated. Specifically, real business investment declined 5.2% in 2001 and 5.7% in 2002 and equipment and software spending slid 6.4% in 2001 and 1.7% in 2002. Over the forecast period, business investment's fate will be tied to its equipment and software component. The good news is conditions are ripe for this component to expand over the forecast period. First, high-tech equipment becomes obsolete very quickly. Since the last round of investment was about three years ago, equipment is due for replacement. Second, any equipment purchases will be helped by low interest rates. Third, improving corporate profits will make it easier to pay for equipment. Fourth, generous tax treatment for newly acquired equipment will also tilt the scales in favor of additional investment. Fifth, the improving stock market will give companies another option for financing their equipment needs. It should be noted, however, that even with all these factors in its favor, real business investment is not likely to expand as it did in the 1990s. This is because the 1990s growth was an anomaly. While that decade's strong growth was appreciated, it was not sustainable, and, therefore, probably not repeatable. Real business investment is forecast to increase 2.4% in 2003, 9.4% in 2004, 8.5% in 2005, 6.7% in 2006, and 7.3% in 2007. On the other hand, real investment on equipment and software should rise 5.2% in 2003, 11.5% in 2004, 8.6% in 2005, 7.1% in 2006, and 7.4% in 2007.

Financial: Could the Federal Reserve do better? With regard to inflation, this is the question the Federal Reserve has been asking itself for some time. This longstanding discussion on price stability has centered on inflation targeting—that is, an explicit commitment to meet a publicly state numerical target (or range) within a given time frame. There is some evidence that a formal inflation target does help anchor inflation expectations, thereby making the job of monetary policy easier. It does so chiefly by

improving the transparency of monetary policy, thereby shortening the lag between policy actions and real outcomes. In short, targeting is believed not only to help lower inflation, but also keep inflation and output more stable. Opponents of targeting worry that establishing a target would unnecessarily restrict the central bank's policy choices. Discussions at the Federal Reserve are taking on greater interest, both because Chairman Greenspan is their chief opponent and because of his planned departure in 2006. Until then the nation's central bank will be on the look out for rekindling inflation. In this forecast the Federal Reserve is assumed to hold off tightening until the end of this year. There are two reasons for the Federal Reserve's patience. First, the worldwide excess of manufacturing capacity is keeping inflation low. Second, the Federal Reserve does not like to be accused of playing politics, so it traditionally avoids making policy changes close to a general election. After the election, the federal funds rate is assumed to rise gradually, going from 1.0% in the third quarter of 2004 to 3.5% by the last quarter of 2007.



Real U.S. Trade Deficit



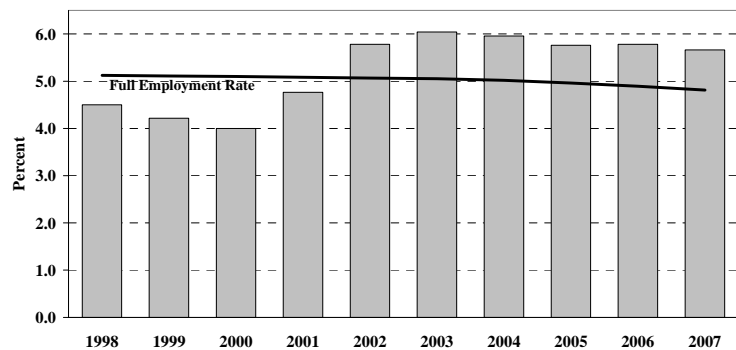
Source: Global Insight

in certain years the gaps between the two were especially huge. For example, real imports grew by about 12.0% in 1998, but real exports advanced by a little over 2.0%. Interestingly, real imports did shrink slightly in 2001. However, real exports declined twice as fast in that same year. The strong exports are the result of America's economic health relative to other major economies over this period. The U.S. was the engine of economic growth during this time, so it naturally served as a magnet for imports. Reinforcing this was the strong dollar, which hurt the competitiveness of U.S. products. However, the dollar has begun to weaken against other currencies, and this bodes well for real exports. Real exports should also be helped by the anticipated health of foreign economies. For example, in this hemisphere economic growth in Canada, Mexico, and South America have all lagged the U.S. However, both Mexico's (3.5%) and Canada's (3.3%) economies are expected to grow virtually as fast annually as the United State's economy (3.4%) from 2005 to 2008. South America is forecast to grow at a slightly faster 3.9% rate. Asia, excluding Japan, should be the growth champion during this same period; it is estimated to increase 5.9% per year. The Eurozone is estimated to advance 2.2% annually, while Japan should rise 1.7% per year. Real net exports are forecast to be -\$529.1 billion in 2003, -\$542.1 billion in 2004, -\$516.7 billion in 2005, -\$480.8 billion in 2006, -\$471.6 billion in 2007, and -\$439.0 billion in 2008.

Employment: Finally, there is good news to report about the nation's employment situation. The long string of disappointing monthly labor data was broken last summer. In its November 2003 press release, the U.S. Department of Labor reported the U.S. seasonally adjusted unemployment rate had declined to 6.0% in October 2003 from 6.1% the previous month. The same report also estimated the number of jobs increased 126,000 in October 2003. This was a welcomed change from the job losses that stretched back to early 2001. It is important to note revisions to past estimates showed employment may have been healthier than was originally thought. For example, it was originally reported the U.S. suffered a loss of 93,000 jobs in August 2003. However, the latest estimate shows a 35,000-net job gain for that month. Given this data, it appears the nation's job drought may have ended last summer. It should be pointed out, however, that not all sectors are enjoying growth. Most noticeably, manufacturing is still shedding jobs. Another sign the labor market is ripe for a recovery is the soaring productivity. Productivity rose a remarkable 7.0% in 2003's second quarter and an astounding 8.1% in its third quarter. Productivity typically surges during a recovery before employment restarts. This is because businesses use resources other than labor to meet growing

International: One of the laggards during the recovery, the international trade sector, should show some signs of improvement during the forecast period. Net exports, which is simply exports less imports, serves as an accurate barometer of this sector's performance. In recent years the trickle of exports from the U.S. has been swamped by the flood of imports into this country, causing the real net export deficit to balloon from \$89 billion in 1996 to an estimated \$529.1 billion in 2003. While imports grew faster in each of these years,

U.S. Civilian Unemployment Rate



Source: Global Insight

employment may have been healthier than was originally thought. For example, it was originally reported the U.S. suffered a loss of 93,000 jobs in August 2003. However, the latest estimate shows a 35,000-net job gain for that month. Given this data, it appears the nation's job drought may have ended last summer. It should be pointed out, however, that not all sectors are enjoying growth. Most noticeably, manufacturing is still shedding jobs. Another sign the labor market is ripe for a recovery is the soaring productivity. Productivity rose a remarkable 7.0% in 2003's second quarter and an astounding 8.1% in its third quarter. Productivity typically surges during a recovery before employment restarts. This is because businesses use resources other than labor to meet growing

demand. At some point, however, employers exhaust other alternatives and must add employees. The labor data confirm this is happening. U.S. nonfarm employment is expected to expand slowly over the forecast period. Initially, growth will be limited to the service sectors, as manufacturing continues to struggle. However, the manufacturing sector's problems are not terminal, and it should resume adding jobs early in 2004. On an aggregate basis, U.S. nonfarm employment is expected to rise 1.1% this year, 2.2% next year, 1.8% in 2006, and 1.8% in 2007. This sluggish job growth will cause the nation's civilian unemployment rate to improve marginally over the forecast period. Specifically, it will decline from 6.0% in 2003 to 5.7% in 2007.

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2003 through the Fourth Quarter of 2007

Idaho's economy began moving again in 2003 and is expected to gradually accelerate through 2007. This is a welcome change from 2002, when Idaho nonfarm employment declined for the first time in 15 years. The Idaho quarterly job data show employment declined during the last two quarters of 2001 and the first quarter of 2002. Idaho employment expanded slowly during the remainder of 2002, but was not strong enough to reverse the previously lost ground. Hence, the employment decline in 2002. It should be pointed out that while Idaho nonfarm employment was flat in 2002, it was stronger than its national counterpart that fell 1.1%.

As was noted above, Idaho's employment began improving as far back as 2002, but 2003 is the first year it will show a year-over-year gain. There were 572,805 Idaho nonfarm jobs at the beginning of last year. The number of jobs dipped to 570,754 in the second quarter of 2003, raising fears that Idaho's economy had stalled again. However, preliminary data show employment recovered to 574,468 jobs in 2003's third quarter. This was consistent with the stronger U.S. economic growth in second half of that year.

It is believed the U.S. economy turned the corner in the latter part of 2003. During this time two missing parts of the recovery fell into place. First, healthy business investment reappeared after being absent for several quarters. Real spending on business equipment advanced at a 15% annual pace in the third quarter of 2003 and 14% in the last quarter. It had been dropping as recently as the first quarter of 2003. Second, the jobless recovery finally started generating jobs. The civilian unemployment rate peaked last summer and has since been moving down, as nonfarm payrolls began expanding. This bodes well for both the U.S. and Idaho economies. National job growth is expected to keep the economy moving forward, and this will have a positive impact on the Gem State.

Idaho nonfarm employment growth is anticipated to gradually accelerate as the U.S. economy heats up. Specifically, nonfarm employment expands 1.0% in 2003, 1.5% in 2004, 1.7% in both 2005 and 2006, and 1.9% in 2007. While this growth is lower than during Idaho's long expansion, it is a welcome change from the absence of growth in 2002. Part of the reason for this subdued growth is the expected declines in the goods producing-sector over the next few years. This leaves the nongoods-producing sector responsible for all of the job growth. The largest growth engine will be the services sector followed by trade.

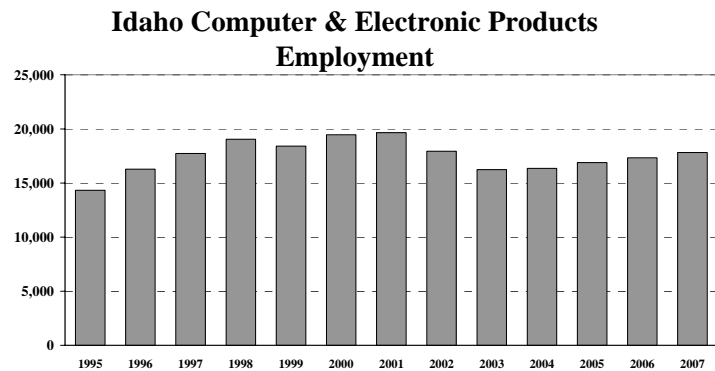
Idaho personal income growth is also expected to improve over the forecast period. Nominal personal income should rise 4.7% in 2003, 5.7% in 2004, 4.9% in 2005, 5.6% in 2006, and 5.9% in 2007. Idaho real personal income is projected to increase 2.7% in 2003, 4.2% in 2004, 2.9% in 2005, 3.5% in 2006, and 3.7% in 2007.

After stalling, Idaho's economy is making the turn toward prosperity. While this turn may seem slow to some, it is a change toward the right direction.

SELECTED IDAHO ECONOMIC INDICATORS

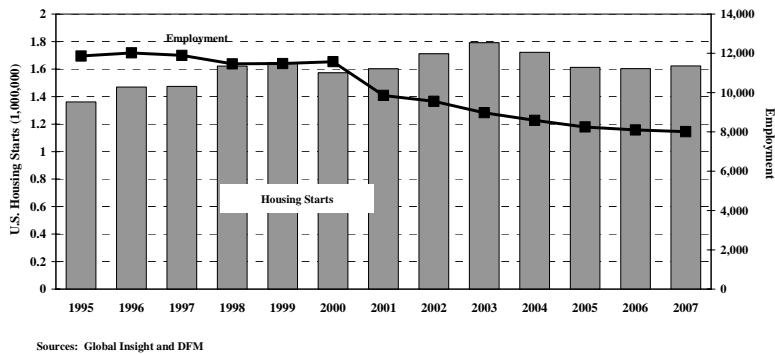
Computer and Electronics: Three years into the current high tech down cycle, Idaho's computer and electronics sector has yet to show signs of recovery. After peaking at nearly 20,700 in the first quarter of 2001, employment in Idaho's computer and electronics sector has declined in every quarter, with nearly 5,000 jobs lost from the 2001 peak to the third quarter of 2003. Its woes can be traced to the fallout from the bursting high-tech bubble. Fueled by the demands

of the Telecommunications Act of 1996, concerns over Y2K, and the popularity of the Internet, real investment in computer equipment advanced by at least 40% from 1995 through 1999. Real investment in communication equipment did not grow as fast as computer investment, but nonetheless showed healthy gains over this same period. For both of these investment categories the go-go years ended in 2000, when investment dropped well below the previous year's pace. Unfortunately, conditions were even weaker in 2001. In that year real investment in computers retreated for the first time since 1990 and investment in communications equipment also declined for the first time in a decade. Because Idaho's high-tech firms have deep ties to these sectors, the local impacts of weakened investment spending were swift and deep. Before the year was out, Jabil Circuit, Micronpc.com, SCP Global Technologies, Micron MCMS, AMI, and Hewlett-Packard had all announced layoffs. As a result, this sector's employment growth slowed from 5.7% in 2000 to 1.0% in 2001. Unfortunately, the worse was yet to come. The Gem State's computer and electronics sector suffered another round of layoffs in 2002, which caused employment to decline 8.8% in that year. It is not difficult to understand how hard this sector was hit. Four of the seven Idaho companies reporting layoffs of at least 100 persons in 2002 were high-tech firms. The news is even worse when measured in jobs. These seven companies laid off 1,515 employees in 2002, with the four high-tech companies accounting for 1,104 (73%) of the total decline. That same year, Jabil Circuit announced it was halting its Idaho operations and was putting its two-year old Meridian plant up for sale. One notable exception to the list of companies with significant layoffs was Micron Technology, the state's largest high-tech employer. However, it joined the ranks of companies laying off employees in 2003 when it cut about 1,100 Idaho jobs. Micron is the world's second largest manufacturer of computer memory products. Its primary competitors are Samsung, Infineon, and Hynix. In recent years memory chip prices have been driven low due to the combination of weak demand growth and the glut of memory chips in the global market. In order to remain competitive it is essential Micron maintains its position as the world's lowest cost producer of chips. After three years of dismal conditions, it appears the outlook for this sector is finally improving. Investment in computer equipment and software appear poised for a recovery. Computer systems and software purchased during the last expansion are nearing the end of their usefulness. In addition, the high-productivity returns for investing in computers should boost demand. Companies wanting to make these investments have found it relatively easy thanks to low interest rates, attractive depreciation treatment, and improved corporate cash flow. In fact, signs of improvement have already occurred. Real investment in computers advanced at a 53.1% annual rate during the second quarter of 2003 and at a 46.3% rate in the third quarter. Real spending on communications equipment increased at about a 15.0% pace during the first three quarters of 2003. While last year marked the return of investment growth, it should be noted that future investment growth is not expected to return to the stellar levels of the mid-to-late 1990s. The return of investment suggests cautious optimism is in order, and Idaho high-



tech firms are expected to expand accordingly. Idaho computer and electronics employment is expected to drop 9.4% in 2003 before rising 0.8% in 2004, 3.3% in 2005, 2.5% in 2006, and 2.8% in 2007. Despite this growth, Idaho's computer and electronics work force will be smaller in 2007 than it was in 2001.

Idaho Logging & Wood Products Employment and U.S. Housing Starts



Logging and Wood Products: The last few years have been frustrating ones for the state's lumber and wood products sector. This is because it has failed to hitch a ride on one of the strongest housing markets in years. Nationally, housing starts have risen from just under 1.5 million units in 1996 to nearly 1.8 million units in 2003. Under these conditions it would be expected employment in the lumber and wood products sector would expand.

Unfortunately, the opposite has occurred. Since 1996 over 3,000 Idaho wood and lumber product jobs have disappeared. It is also interesting to note that U.S. lumber production has fallen in several of the most recent years despite the housing sector's strong showing. Why is this sector performing so poorly when the housing sector is expanding? Given housing's health, demand does not appear to be the problem. Much of the blame for the wood and lumber product sector's sluggishness is supply related. Export markets have disappeared because of the global slowdown. The supply of wood products has flooded the hot U.S. market, keeping prices low. Another problem is its excess manufacturing capacity. One estimate shows this industry is already geared up to produce 20% to 25% more lumber than is being consumed in North America and Canada. It is anticipated the industry will gradually regain its balance, but only as older and less-efficient mills close. Another problem is the dwindling supply of federal timber. According to the U.S. Department of Agriculture, the total amount of timber harvested in Idaho fell from 1.8 million board feet in 1990 to 1.2 billion board feet in 2000, a 31% drop. These data also show that harvests from Idaho national forests fell an astounding 78% over this decade. Harvest levels are not expected to return to previous levels. These supply problems have exacted a high toll in Idaho. Approximately 125 jobs were lost when the former Boise Cascade mill in Cascade, Idaho ceased operations in 2001. About 250 jobs were lost last year when the Emmett, Idaho mill was closed. Potlatch shuttered its Jaype Mill near Pierce the previous year, a move that cost about 215 jobs. And the losses continued into this year. Louisiana-Pacific closed its Bonners Ferry mill this fall, putting about 140 people out of work. The company sold its Moyie Springs mill to Riley Creek, but not all of the former employees found jobs with the new owners. In early October Stimson Lumber informed 67 employees at its Atlas mill they were being permanently laid off. Idaho's logging and wood products employment is expected to decline from 8,974 in 2003 to 8,012 in 2007.

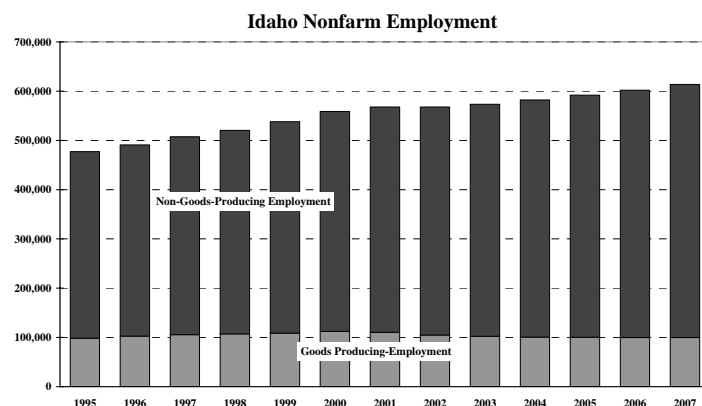
Mining and Chemicals: As with other resource-based industries, the Gem State's mining and chemical sectors find themselves in hard times. These industries are no strangers to the ebb and flow of the business cycle. However, the mining sector finds itself in the midst of a protracted decline with no relief in sight. The last time it had a net increase in jobs was 1997. While the declines do reflect the business cycle, there is also a downward trend component. Evidence for this can be seen by reviewing the mining data. It shows that in recent history each cyclical employment peak is lower than the previous one. This downward pressure helps explain why after peaking at nearly 3,000 jobs in 1997, employment fell to less than 1,800 jobs in 2002. These losses have been felt in several pockets of the state. In the last three years, Shoshone County has endured four major cutbacks. In September 2000,

the county's mining industry employed 726 people. After the Sunshine Mine closed in early 2002 and the Lucky Friday Mine laid off more than 150 workers, its employment is near 320. Unfortunately, there is little relief in sight. The combination of soft demand and the negative trend is expected to force Idaho mining employment to drift further down over the forecast period. Specifically, it is anticipated to drop from 1,737 in 2003 to 1,432 in 2007. The chemical sector's hard times may not have lasted as long as the mining sector's, but it has been painful. Although the Gem State's chemical sector had a few years with job losses, employment levels have been relatively stable over the last few years. This changed last year. Employment declined 17.2% in 2002 when 400 jobs were lost. This huge drop resulted from the closing of the Astaris (formerly FMC) elemental phosphorous plant located just outside of Pocatello. This closing had repercussions beyond the chemical sector. Several hundred construction jobs were lost when the plant closed. In addition, Idaho Power Company lost its single largest electricity customer. A blow of this magnitude is not easy to overcome, and the Gem State's chemical sector is expected to be reeling for several years. The forecast does call for some growth in the last two years of the forecast, but it will be slight, and in no way come near to covering the losses of the previous years.

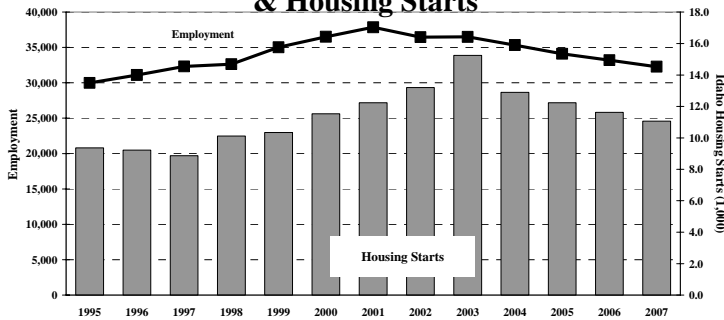
Nongoods-Producing Industries:

The nongoods sector is by far the state's largest employer. In 2002, it accounted for over 80% of all nonfarm jobs in Idaho. The nongoods sector is dominated by two major components: services and trade. Together they account for three fourths of nongoods-producing employment. Services is the larger of the two categories. It is an aggregation of several sub categories. The three largest services components

are: professional and business services; education and health services; and leisure and hospitality services. Together they account for nearly 72% of total service-related employment in 2002. In addition, professional and business services and education and health services have posted strong, consistent growth. The next largest group consists of sectors with employment of around 20,000 each. Financial services; transportation, warehousing, and utilities; and other services make up this group. The smallest sector is information services with about 9,200 jobs. The trade category can be divided into retail and wholesale trade, with the former being bigger than the latter. Not only has the nongoods sector historically accounted for the most jobs in Idaho, but it will also produce all the new jobs over the forecast period. It is sometimes helpful to group these jobs by their expected growth rates. Education and health services should be the fastest growing sector, averaging 3.6%. It will be followed closely by leisure and hospitality services and professional and business services, both of which advance 2.8%. Information services grow 1.4%. Financial Services employment growth is anticipated to average 2.3%, while other services and transportation, warehousing, and utilities are expected to average 1.4% growth. The trade sector can also be broken out this way. Retail trade should average 2.4% growth over the forecast period, while wholesale trade advances at a 1.7% yearly pace. Overall, total employment in Idaho's nongoods-producing sector is forecast to rise 1.8% in 2003, 2.1% in 2004, 2.2% in 2005, 2.2% in 2006, and 2.3% in 2007. After this forecast was finalized, T-Mobile announced it was opening a call center in Meridian, Idaho. The company plans to eventually employ 600 at the new site.



Idaho Construction Employment & Housing Starts



Construction: Idaho construction employment is projected to shrink over the forecast period. While the expected declines are modest, the change in direction is not trivial. Idaho's construction industry played a major role in the state's long economic recovery. Construction employment expanded from 20,350 in 1991 to 37,859 in 2001, an 86% increase. This was nearly twice as fast as Idaho total nonfarm employment over the

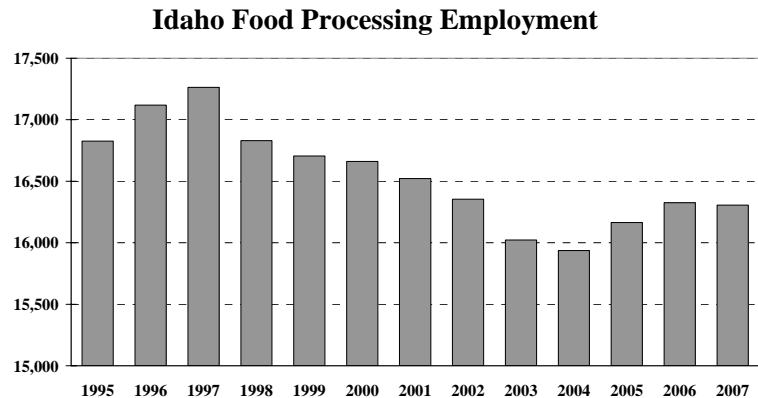
same period. As recently as 2001, construction employment expanded at a healthy 3.7% pace. Fueling this growth was the surge in housing starts. Historical data show Idaho housing starts climbed from 6,600 in 1991 to 13,196 in 2002. Much of this strength was due to the state's rapidly expanding population. There had been a dearth of building in the years leading up to the boom. As such, when newcomers began pouring into the state, the construction industry found itself trying to keep up with demand. This trend has proven to be a positive one. Because supply had been chasing demand for most of the expansion, there has been no significant inventory build up. This is the reason the housing industry did not collapse when the state's population growth began to ease. Instead, it should grow to 15,247 in 2003 thanks to low mortgage interest rates. After this year, starts should slide to the 11,000- to 13,000-units range. While this is a decrease from the previous year, it is still a historically high level. For this reason Idaho's construction employment decline should be modest. In the course of just a couple years Idaho's construction sector will transition from a growth engine to a slight drag on the economy. Specifically, Idaho construction employment should be stable in 2003, and then fall about 3.0% annually in the remaining years of the forecast.

Government: Idaho's government sectors are expected to grow slower than total nonfarm employment over the forecast period. This forecast for modest growth should not be a surprise given the expected slowing of the state's population growth and the budget limitations facing state and local units of government. The correlation between population growth and government employment gains is high. This can be demonstrated by reviewing the demographic and employment data from the last decade. Idaho's economy enjoyed a resurgence that commenced in the late 1980s and strengthened in the 1990s. While most of the nation languished in a jobless recovery in the early 1990s, Idaho enjoyed above-average job growth. Thus, Idaho was seen as an oasis of economic growth in a desert of hard times. Not surprisingly, Idaho net migration soared during this period. This influx of newcomers caused Idaho's population to advance much faster than U.S. population growth. California was particularly hard hit by the 1990-91 recession, military base closures, and the downsized defense industry. Given the Golden State's proximity to the Gem State, it is no wonder the lion's share of new Idahoans were from California. Faced with explosive population growth, Idaho state and local government found itself in catch-up mode during most of this time. As a consequence, this sector's employment expanded 2.8% annually. Growth began to taper off as Idaho's population cooled with the start of the new millennium. Idaho's state and local government employment growth has continued to slow, and it is expected to rise just over 1.0% in 2003, which is the same pace as Idaho population growth. Legislation passed in the mid-1990s restricts the budget growth of local units of government. The combination of slower population growth and budget limitations suggests Idaho state and local government employment should grow about 0.5% per year from 2004 to 2006. This growth can be broken out further into education- and noneducation-related employment. Idaho education employment is expected to grow slightly faster than overall state and local government employment while noneducation employment grow slower than the aggregate pace. Federal government employment is

not expected to fare as well as state and local employment. Specifically, it advances 2.9% in 2003 and 1.0% in 2004, and then declines 0.2% in 2005 and 0.1% in both 2006 and 2007.

Food Processing: One of Idaho's cornerstone industries is expected to recover slowly from its recent stretch of trying times. Food processing is the state's second largest manufacturing employer. Not only does the sector provide a large number of jobs, but also it has been a relatively stable job provider. For example, despite having gone through some challenging times, this sector's employment declined by less than 500 since the first quarter of

2002. Unfortunately, these times are not yet over. Currently, processors are dealing with weak demand for their products. It has been speculated worries about the economy are preventing people from dining out. There is some concern low-carbohydrate diets have decreased demand. However, it remains to be seen whether this will be a temporary or permanent change. Another fear is foreign appetites for processed potatoes may not be as deep as previously perceived. There are also concerns about the structure of the industry and what share Idaho will play in its future. For example, J.R. Simplot Company recently opened its newest plant in Canada. In recent years, Canada has become a major player in the processed potato market. For example, it has been reported that the U.S. became a net importer of French fries in 2000. This trend is expected to continue through 2005 as additional Canadian capacity comes on line. Unfortunately, as more Canadian capacity comes online, it makes older, less efficient plants vulnerable to closures. In Idaho, the J.R. Simplot Company closed its Heyburn plant in November 2003. Nearly 600 workers were affected by the closing. The plant was built in 1960 and had run continuously since that time. Unfavorable business conditions caused Simplot also closed its Nampa meat packing plant in the fall of 2003. Nearly 360 jobs were lost when the plant was idled. Idaho's food processing sector has been rocked by several severe setbacks in recent years. However, it appears the worse may be over, and this sector may be entering a period of relative stability. The demand for food should improve as the U.S. economy heats up. However, employment gains will be limited by ongoing structural changes in the food processing industry. As such, Idaho food processing employment is expected to decline 2.0% in 2003 and 0.5% in 2004 before growing 1.4% in 2005, 1.0% in 2006, and falling just 0.1% in 2007.



ALTERNATIVE FORECASTS

Global Insight has assigned a 60% probability of occurrence to its November 2003 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 2.9% in 2003, 4.3% in 2004, and 3.6% in 2005, 2006, and 2007;
- U.S. nonfarm employment declines 0.3% in 2003, then grows 1.1% in 2004, 2.2% in 2005, and 1.8% in both 2006 and 2007;
- U.S. civilian unemployment rate falls gradually from 6.0% in 2003 to 5.7% by 2007;
- inflation is 2.3% in 2003, 1.4% in 2004, and averages 2.0% from 2005 to 2007;
- the federal government deficit peaks at nearly one half trillion dollars in 2004;
- and net exports begin improving in 2005.

Last year the U.S. economic recovery achieved some much-needed credibility when two of its missing parts fell into place. Last August the so-called “jobless recovery” finally began adding jobs. In addition, real business investment advanced after shrinking for over two years. The return of investment is important because its collapse was one of the factors leading to the last recession.

The baseline forecast calls for the economy to grow moderately over the next few years. This forecast, while most probable, is not the only possibility. Other paths, while less likely, are also possible. In order to account for this, two alternative forecasts for the national and Idaho economies have been prepared. Both have an equal probability of occurring. In the first, the U.S. economy outperforms its baseline counterpart. In the second, the economy falls short of the baseline’s showing. The details of these alternative forecasts are discussed in detail below.

OPTIMISTIC SCENARIO

The *Optimistic Scenario* has been assigned a 20% probability of occurrence. This scenario explores how the economy would perform with a bit more oomph. This is not hard to imagine. During the course of 2003, the vigor of the housing market has persistently exceeded expectations. In this scenario, U.S. housing starts actually top 1.8 million units in 2003 and 2004, and are higher than in the baseline in every year of the forecast. The economy also gets a boost from exports and government purchases. It is assumed global growth picks up, increasing the demand for American made goods. The stronger foreign economies should put downward pressure on the dollar, which further benefits exports. This alternative scenario assumes state and local governments raise spending a little faster in 2004 and 2005 compared to the baseline.

In the *Optimistic Scenario*, real GDP growth accelerates to 4.9% in 2004 and 4.0% in 2005, averaging about 0.5 percentage point stronger than its baseline counterpart. The unemployment rate improves quicker than in the baseline. Specifically, it is down to 5.3% in 2005. This is much lower than 5.8% unemployment rate forecast for 2005 in the *Baseline Scenario*. Not surprisingly, nonfarm employment growth is more brisk than in the *Baseline Scenario*. One consequence of the stronger growth in the *Optimistic Scenario* is inflation risks emerge more quickly. As a result, the Federal Reserve tightening begins earlier and is more aggressive than in the baseline.

IDAHO ECONOMIC FORECAST
BASELINE AND ALTERNATIVE FORECASTS
JANUARY 2004

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2004	2005	2006	2007	2004	2005	2006	2007	2004	2005	2006	2007
GDP (BILLIONS)												
Current \$	11,580	12,211	12,883	13,610	11,648	12,344	13,060	13,831	11,442	11,840	12,436	13,212
% Ch	6.0%	5.4%	5.5%	5.6%	6.6%	6.0%	5.8%	5.9%	4.8%	3.5%	5.0%	6.2%
1996 Chain-Weighted	10,138	10,498	10,871	11,259	10,196	10,601	10,980	11,358	10,022	10,229	10,624	11,131
% Ch	4.3%	3.6%	3.6%	3.6%	4.9%	4.0%	3.6%	3.4%	3.2%	2.1%	3.9%	4.8%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	37,167	38,981	41,165	43,602	37,296	39,332	41,697	44,309	36,886	37,946	39,767	42,236
% Ch	5.7%	4.9%	5.6%	5.9%	6.1%	5.5%	6.0%	6.3%	4.9%	2.9%	4.8%	6.2%
U.S. (Billions)	9,685	10,223	10,817	11,471	9,725	10,327	10,977	11,685	9,613	9,954	10,425	11,060
% Ch	5.2%	5.6%	5.8%	6.0%	5.6%	6.2%	6.3%	6.4%	4.4%	3.6%	4.7%	6.1%
PERSONAL INCOME - 1996 \$												
Idaho (Millions)	32,367	33,314	34,476	35,739	32,469	33,557	34,776	36,050	32,216	32,774	33,775	35,239
% Ch	4.2%	2.9%	3.5%	3.7%	4.5%	3.3%	3.6%	3.7%	3.7%	1.7%	3.1%	4.3%
U.S. (Billions)	8,434	8,737	9,060	9,402	8,467	8,810	9,155	9,507	8,396	8,597	8,854	9,228
% Ch	3.7%	3.6%	3.7%	3.8%	4.1%	4.1%	3.9%	3.8%	3.2%	2.4%	3.0%	4.2%
TOTAL NONFARM EMPLOYMENT												
Idaho	581,925	591,734	602,052	613,550	583,202	595,188	606,580	618,453	578,880	581,563	590,288	604,260
% Ch	1.5%	1.7%	1.7%	1.9%	1.7%	2.1%	1.9%	2.0%	0.9%	0.5%	1.5%	2.4%
U.S. (Thousands)	131,491	134,395	136,853	139,293	131,953	135,416	138,088	140,476	130,737	131,981	134,015	137,435
% Ch	1.1%	2.2%	1.8%	1.8%	1.5%	2.6%	2.0%	1.7%	0.6%	1.0%	1.5%	2.6%
GOODS PRODUCING SECTOR												
Idaho	100,711	100,115	99,765	99,597	101,470	101,882	101,586	101,165	98,650	93,939	94,445	97,175
% Ch	-1.5%	-0.6%	-0.3%	-0.2%	-0.8%	0.4%	-0.3%	-0.4%	-3.5%	-4.8%	0.5%	2.9%
U.S. (Thousands)	21,925	22,271	22,528	22,792	22,032	22,611	22,988	23,222	21,709	21,336	21,245	21,999
% Ch	-0.5%	1.6%	1.2%	1.2%	-0.1%	2.6%	1.7%	1.0%	-1.5%	-1.7%	-0.4%	3.6%
NONGOODS PRODUCING SECTOR												
Idaho	481,214	491,619	502,287	513,953	481,732	493,306	504,995	517,288	480,230	487,624	495,843	507,086
% Ch	2.1%	2.2%	2.2%	2.3%	2.2%	2.4%	2.4%	2.4%	1.9%	1.5%	1.7%	2.3%
U.S. (Thousands)	109,566	112,124	114,325	116,501	109,920	112,805	115,100	117,254	109,028	110,645	112,770	115,436
% Ch	1.5%	2.3%	2.0%	1.9%	1.8%	2.6%	2.0%	1.9%	1.0%	1.5%	1.9%	2.4%
SELECTED INTEREST RATES												
Federal Funds	1.1%	1.9%	2.4%	3.1%	1.3%	2.4%	3.3%	4.1%	0.7%	0.5%	0.5%	1.2%
Bank Prime	4.1%	4.9%	5.4%	6.1%	4.3%	5.4%	6.3%	7.1%	3.7%	3.5%	3.5%	4.2%
Existing Home Mortgage	6.7%	7.1%	7.1%	7.2%	6.7%	7.3%	7.4%	7.6%	6.6%	6.6%	6.6%	6.6%
INFLATION												
GDP Price Deflator	1.6%	1.8%	1.9%	2.0%	1.6%	1.9%	2.1%	2.4%	1.5%	1.4%	1.1%	1.4%
Personal Cons Deflator	1.4%	1.9%	2.0%	2.2%	1.6%	1.9%	2.1%	2.4%	1.1%	1.1%	1.7%	1.8%
Consumer Price Index	1.4%	1.9%	2.0%	2.2%	1.4%	2.0%	2.3%	2.6%	1.1%	1.1%	1.7%	1.9%

Forecast Begins the THIRD Quarter of 2003

In this *Scenario*, the outlook for Idaho's economy improves slightly. Total nonfarm employment grows marginally faster in each year compared to its baseline counterpart, so that by 2007 nonfarm employment is nearly 5,000 higher. This reflects a stronger showing for both the goods- and nongoods-producing sectors. As in the baseline case, goods-producing employment is expected to fall over the forecast horizon. However, it does not decline as steeply as anticipated in the *Baseline Scenario*. Nongoods-producing employment does grow faster here versus the *Baseline Scenario*. In addition, both Idaho nominal and real personal income advance faster in this scenario compared to the baseline. As a result, both are higher in 2007 than their baseline counterparts.

PESSIMISTIC SCENARIO

This *Pessimistic Scenario* has also been assigned a 20% probability of occurrence. In this scenario, the U.S. economy hits a few obstacles on the road to recovery. Part of the blame for this is the Eurozone and Japanese governments' failures to enact essential structural reforms. In addition, European economic growth is hurt by the European Central Bank's refusal to adopt a more accommodative policy. These factors contribute to anemic global economic growth. One of the consequences of this weaker growth is it props up the dollar versus foreign currencies. The weaker world growth and higher dollar hit exports with the impact of a one-two punch. As export demand stagnates, consumers become more cautious with spending. This causes real GDP to grow slower than in the Baseline Scenario, with investment spending being especially hard hit. Businesses are also more cautious about adding new workers. This slow pace of hiring eats away at consumer sentiment, which causes consumer growth to eventually slow.

With inflation stable and the recovery threatening to stall, the Federal Reserve lowers its federal funds rate to 0.75% in early 2004 and follows that with another 25 basis point reduction a few months later. By early 2005, the recoveries in Europe and Asia finally take hold. By late that year, a weakening dollar begins to amplify the effects of the Federal Reserve's expansionary policy. After flirting with a disaster, the economy is back on track. Net exports begin to rise, which starts a pick up in industrial activity, investment, and job growth.

The weaker U.S. economic outlook dampens Idaho's economic prospects. Notably, Idaho nonfarm employment is expected to grow slower than in the baseline from 2004 to 2006. Employment does grow faster in 2007, but this growth cannot overcome the impacts of the previous three years. By the end on the forecast period, Idaho nonfarm employment is over 9,000 lower than in the baseline. Interestingly, goods-producing employment suffers significant setbacks in 2004 and 2005, but posts a rally beginning in 2006. As with overall employment, however, the gain in goods-producing employment does not offset the losses of the previous years. Idaho nominal and real personal income follow the same general pattern as nonfarm employment. That is, weaker growth than their baseline counterparts through 2006 combined with modestly stronger growth in 2007.